

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 /101 W
-----079280 041023Z /13

P R 040845Z AUG 77
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 9885
TREASURY DEPT WASHDC
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

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BRUSSELS FOR US MISSION EEC
PARIS ALSO FOR US MISSION OECD

E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - JULY 28-AUG 3, 1977

1. SUMMARY: RESPONDING TO BUSINESS/LDP PRESSURE FOR FURTHER
REFLATIONARY MEASURES, GOVERNMENT AGREES TO LIMITED IMMEDIATE
STEPS TO BOOST BUSINESS AND PROMISES COMPREHENSIVE MEASURES
IN LATE AUGUST IF NECESSARY -- WITH QTE COMPREHENSIVE UNQTE
INTERPRETED BY LDP SPOKESMEN AS MEANING BOTH A SUPPLEMENTARY
BUDGET AND DISCOUNT RATE CUT. CONSUMER PRICES DECLINE IN JULY
FOR SECOND CONSECUTIVE MONTH, AND INTEREST RATES CONTINUE TO
BE MARKED DOWN. GROWTH IN THE MONEY SUPPLY IN JUNE EASES.
TOKYO STOCK MARKET BOUNCES BACK STRONGLY FROM 1977 LOWS SET
WEEK EARLIER. END SUMMARY.

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2. PLANS FOR FURTHER ECONOMIC STIMULATION HIGHLIGHT
TOKYO ECONOMIC NEWS. PRIME MINISTER FUKUKDA CONTINUES TO
STRESS THAT IF ADDITIONAL MEASURES ARE
NEEDED TO INSURE THE 6.6 GROWTH TARGET IS REACHED, THEY
SHOULD BE COMPREHENSIVE RATHER THAN PIECEMEAL. HOWEVER,
RESPONDING TO BUSINESS AND LDP PRESSURE FOR IMMEDIATE STEPS
TO FORESTALL WHAT THEY SEE AS A SLOWDOWN IN THE ECONOMY,

GOVERNMENT AND LDP LEADERS REACHED AGREEMENT WEDNESDAY AUG 3 ON A GENERAL APPROACH TO THE ECONOMIC STIMULUS QUESTION AS WELL AS ON SOME SPECIFIC ACTIONS THAT COULD BE IMPLEMENTED IMMEDIATELY. REPORTS OF THE GOVERNMENT/LDP AGREEMENT ARE SOMEWHAT UNCLEAR BUT IT IS GENERALLY CONSIDERED THAT THE GOVERNMENT HAS COMMITTED ITSELF TO A TWO-PHASED APPROACH.

3. THE FIRST PHASE INVOLVES PROMPT IMPLEMENTATION OF SIX MEASURES TO BOOST BUSINESS:

- STEPPED UP IMPLEMENTATION OF PUBLIC WORKS PROJECTS.
- FURTHER ACCELERATION OF INVESTMENT IN THE ELECTRIC POWER INDUSTRY.
- PROMOTION OF CONSTRUCTION OF OIL STOCKPILING FACILITIES.
- PROMOTION OF INDUSTRIAL PLANT EXPORTS.
- PROMOTION OF ECONOMIC COOPERATION WITH DEVELOPING NATIONS.
- ASSISTANCE TO INDUSTRIES FACING SERIOUS STRUCTURAL DIFFICULTIES AND BUSINESSES HIT BY YEN APPRECIATION.

DETAILS WILL BE FURNISHED LATER.

4. THE AGREEMENT REACHED ON THE SECOND PHASE STIMULUS MEASURES IS SOMEWHAT MURKY, WHICH IS NOT TOO SURPRISING GIVEN THAT THE GOVERNMENT HAD ONLY RECENTLY DECIDED NOT TO MAKE UP ITS MIND ABOUT THE NEED FOR SUCH MEASURES UNTIL THE LATTER PART OF AUGUST. IT SEEMS

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THAT THE GOVERNMENT PROMISED THE LDP LEADERS THAT IT WOULD INSTITUTE COMPREHENSIVE MEASURES OF FINANCIAL AND MONETARY STIMULUS IF THEY APPEAR NECESSARY AFTER STUDYING THE SITUATION AT THE END OF THIS MONTH; AND THE LDP INTERPRETS THIS AS TANTAMOUNT TO A PROMISE TO PROPOSE A SUPPLEMENTARY BUDGET AND TO CUT THE DISCOUNT AND OTHER INTEREST RATES.

5. CONSUMER PRICES DECLINED IN JULY FOR SECOND CONSECUTIVE MONTH. TOKYO CPI FOR JULY EDGED DOWN TO 118.5 FROM JUNE LEVEL OF 118.7. TOKYO CPI NOW UP 8.1 PERCENT FROM JULY 1976. RECENT DECLINE IN CONSUMER PRICES IS LARGELY ATTRIBUTABLE TO SHARP DECLINE IN SEASONAL FOOD PRICES. NATIONAL CPI FOR JUNE DECLINED 0.5 PERCENT TO STAND AT 118.4. NATIONAL CPI NOW 8.5 PERCENT ABOVE JUNE 1976 LEVEL.

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6. JAPAN'S OFFICIAL INTERNATIONAL RESERVES ROSE BY
\$251 MILLION IN JULY, REACHING A LEVEL OF \$17,639 VILLION
AS OF JULY 31.

7. GROWTH IN JAPAN'S MONEY SUPPLY IN JUNE SLOWED TO THE
LOWEST RATE IN THE LAST TWO-AND-ONE-HALF YEARS. M-2 IN
JUNE STOOD AT YEN 147,143,900 MILLION (N.S.A.) AN INCREASE
OF 11 PERCENT OVER A YEAR EARLIER. ON A SEASONALLY ADJUSTED
BASIS, THE INCREASE IN M-2 DURING JUNE AMOUNTED TO 1.2
PERCENT. SLOW GROWTH IN THE MONEY SUPPLY WAS ATTRIBUTED TO
SLUGGISH GOVERNMENT SPENDING, A DECLINE IN COMMERCIAL
BORROWING, AND REPAYMENT OF BUSINESS LOANS. IN ITS LATEST
MONTHLY REPORT, THE BANK OF JAPAN FOR THE FIRST TIME
PUBLISHED DATA ON M-3. THE NEW M-3 SERIES IS COMPRISED OF
CASH IN CIRCULATION AND BANK DEPOSITS -- THE M-2
SERIES -- PLUS DEPOSITS WITH POST OFFICES, AGRICULTURAL
AND FISHERY COOPERATIVES, GENERAL CREDIT ASSOCIATIONS,
LABOR UNION CREDIT ASSOCIATIONS AND MONEY IN TRUSTS.
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OFFICIALS SAID POSTAL SAVINGS AND DEPOSITS WITH VARIOUS
COOPERATIVES NOW REPRESENT A SIGNIFICANT PROPORTION OF
MONEY HOLDINGS. POSTAL SAVINGS IN PARTICULAR HAVE RISEN
RAPIDLY OVER THE LAST TWO OR THREE YEARS BECAUSE OF THE
ABILITY OF THE POSTAL SAVING Q TO OFFER COMPETITIVE INTEREST
RATES ON MORE FLEXIBLE TERMS THAN BANKS HAVE OFFERED. IN

JUNE M-3 WAS YEN 220,657,400 MILLION (N.S.A.), 13 PERCENT HIGHER THAN THE JUNE 1976 LEVEL. ON A SEASONALLY ADJUSTED BASIS, M-3 INCREASED BY 1.3 PERCENT IN JUNE OVER ITS LEVEL AT THE END OF MAY.

8. INTEREST RATES CONTINUE TO BE ADJUSTED DOWNWARD. AT THE END OF JUNE, INTEREST RATES ON SHORT- AND LONG-TERM LOANS AVERAGE 7.101, DOWN 0.25 PERCENTAGE POINTS FROM MAY. RATE CUTS WERE ALSO ANNOUNCED FOR SEVERAL GOVT-AFFILIATED FINANCIAL INSTITUTIONS AMONG OTHERS;

9. NEW EVIDENCE APPEARED THIS WEEK TO INDICATE THAT INTEREST RATE DEVELOPMENTS HAVE MADE YEN FINANCING MORE ATTRACTIVE INTERNATIONALLY. THE SANYO ELECTRIC COMPANY ANNOUNCED IT WILL DROP PLANS FOR A DOLLAR BOND FLOTATION IN THE US DESIGNED TO YIELD YEN 15 BILLION. INSTEAD, SANYO WILL ISSUE YEN BONDS IN TOKYO. THE COMPANY CITED LOWER INTEREST COST IN TOKYO AND ALSO NOTED THAT WITH THE APPRECIATION OF THE YEN, THE PLANNED DOLLAR BORROWING WOULD HAVE BEEN INSUFFICIENT TO MEET SANYO'S YEN REQUIREMENTS.

10. SEPARATELY, IT IS REPORTED THAT THE BRAZILIAN STATE MINING CORPORATION PLANS A PRIVATE PLACEMENT IN JAPAN OF YEN DENOMINATED BONDS TOTALING 10 BILLION. THE BRAZILIAN FIRM WILL BE THE SECOND SUCH FOREIGN ENTERPRISE TO ISSUE BONDS IN JAPAN.

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QQM THE TOKYO STOCK MARKET RECOVERED SHARPLY THIS WEEK AFTER TOUCHING A LOW FOR THE YEAR THE PREVIOUS WEEK. THE TOKYO DOW JONES AVERAGE CLOSED AT YEN 5,059.13 ON WEDNESDAY AUG 3, 4.3 PERCENT ABOVE THE LOW OF YEN 4,849.35 SET ON JULY 28. THE RECOVERY WAS SPARKED BY A REDUCTION IN THE MARGIN REQUIREMENT ON JULY 29 FROM 40 PERCENT TO 30 PERCENT, THE LEGAL MINIMUM REQUIREMENT. THIS IS THE LOWEST MARGIN REQUIREMENT IN OVER FIVE YEARS. SUBSEQUENT INDICATIONS THAT THE GOVERNMENT WOULD SPEED UP THE TIMETABLE FOR ITS EXPECTED ECONOMIC STIMULUS PROGRAM SUSTAINED THE RALLY INTO THE PRESENT WEEK.

MANSFIELD

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Message Attributes

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